Solution 8.1

a) The following situations will result in comparatives for earnings per share to be restated:

- A capitalisation issue or a share split (i.e. a *not for value* issue)
- A change in accounting policy or a correction of an error

With a **capitalisation issue or a share split** no new cash resources are available to the company. The number of shares increases resulting in a decrease in the EPS. Therefore, the comparative EPS must be restated to ensure that comparability is not lost. This adjustment applies not only to the prior period but to the figures of all previous periods that are presented as comparatives as well.

A **change in accounting policy or a correction of an error** gives rise to a prior year adjustment in terms of IAS 8. With a prior year adjustment it is necessary to restate the previous year's comparatives and the retained earnings at the beginning of the year. If the adjustment has an impact on the 'earnings' used for the earnings per share calculation, it will therefore be necessary to restate the earnings per share figure for the previous year.

b) IAS 33 requires earnings per share to be based on basic earnings, which is defined as the profit or loss for the period attributable to ordinary shareholders after deducting preference dividends. In terms of IAS 8, profit for the period should include all items of income and expense recognised in a period. The profit on sale of investments should be included in profit for the period and therefore should be included in basic earnings as well.

c) Dividends per share depends on the dividend payout policy of a company, and not necessarily on the size of its profits. It is not possible to judge a company's performance on its dividends declared. In new or expanding companies, for example, it would be irresponsible to adopt too high a dividend payout ratio. A low dividend per share in such cases would not necessarily reflect poor performance - management may just be retaining the profits in order to re-invest in the business. Earnings per share, on the other hand, is based on profit earned by the business regardless of whether such funds are being paid out to the owners or are being re-invested to increase the value of the business.

Profit after tax on its own does not tell shareholders the extent of the return on their investment. For example if two companies both reflect profit after taxation for the year of C100 000 but company A has 1 000 shares and company B has 2 000 shares, it cannot be said that a shareholder with one share in each of the companies has earned the same amount on each investment, even though the profits earned by each company are the same. The one share held in company A has yielded a C100 return whereas the one share in company B has only yielded a C50 return once the profits have been shared out amongst the owners. It is therefore more meaningful to look at earnings per share than at total earnings.

Solution 8.2

AUSSIE LIMITED
EXTRACTS FROM THE STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 SEPTEMBER 20X3

		Notes	20X3 C	20X2 C
Basic earnings / (loss) per share	*443 500 / 420 000; (23 500)/ 405 000*	14	1,06	(0,06)

AUSSIE LIMITED
EXTRACTS FROM THE STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 SEPTEMBER 20X3

		C	C	C	Total C
Balances: 1/10/20X1					
Movement					
Balances: 30/9/20X2					
Movement					
Balances: 30/9/20X3					
Dividends per share : 20X3	*(105 000 / 420 000)*				0,25
Dividends per share : 20X2					0,00

AUSSIE LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 20X3

14. Earnings per share

The calculation of basic earnings per share is based on profit / (loss) of C445 188 (20X2: loss of C25 188) and on the weighted average of 420 000 shares in issue (20X2: 405 000) after the capitalisation issue on 15 June 20X3. The earnings per share for 20X2 have been adjusted accordingly.

The calculation of headline earnings per share is based on earnings of C515 188 (20X2: C64 938) and a weighted average of 420 000 (20X2: 405 000) shares in issue after the capitalisation issue on 15 June 20X3. The headline earnings per share for 20X2 has been adjusted accordingly.

Reconciliation of profit to earnings

		20X3 C Net	20X2 C Net
Profit/(loss) for the period		475 000	(10 000)
Preference dividends	*(13 500 + 18 000) (13 500)*	(31 500)	(13 500)
Basic earnings		443 500	(23 500)

Solution 8.2 continued …

Workings

W1: Number of equity shares		**Actual**	**20X3**	**20X2**
Balance 1 October X1		300 000	300 000	300 000
Cash issue 1 January X2	*(20X2: 50 000 X 9/12)*	50 000	50 000	37 500
		350 000	350 000	337 500
Capitalisation issue 15 June X3	*(20X2: 337,5K/ 350K X 70K) or (337,5K X 1/5)* *20X3: 350K/ 350K X 70K*	70 000	70 000	67 500
Balance 30 September X2		420 000	420 000	405 000

Solution 8.3

MITCH LIMITED
EXTRACTS FROM THE STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 20X1

		Notes	20X1 C	20X0 C
Profit for the period			100 000	80 000
Other comprehensive income			-	-
Total comprehensive income			100 000	80 000
Basic earnings per ordinary share	*20X1: 95 000 / 1 375 000*			
	20X0: 75 000 / 1 000 000	5	0.0691	0.0750

MITCH LIMITED
EXTRACTS FROM THE STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 20X1

	Ordinary shares C	Preference shares C	Retained earnings C	Total C
Opening balance at 1/1/20X0	200 000	50 000	xxx	
Total comprehensive income			80 000	
Ordinary dividends			(6 000)	
Preference dividends			(5 000)	
Opening balance at 1/1/20X1	200 000	50 000	xxx	
Share issue	100 000			
Total comprehensive income			100 000	
Ordinary dividends			(10 000)	
Preference dividends			(5 000)	
Closing balance at 31/12/20X1	300 000	50 000	xxx	

20X1 Dividends per ordinary share	*10 000 / 1 500 000*	0.0060
20X0 Dividends per ordinary share	*6 000 / 1 000 000*	0.0067

MITCH LIMITED
EXTRACTS FROM THE NOTES TO THE FINANCIAL STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 20X1

5. Earnings per share
The calculation of earnings per share is based on earnings of C95 000 (20X0: C75 000) and a weighted average of 1 375 000 ordinary shares (20X0: 1 000 000) in issue throughout the year.

Reconciliation of earnings	20X1 C	20X0 C
Profit for the year	100 000	80 000
Preference dividends	(5 000)	(5 000)
Basic earnings	95 000	75 000

Workings

Weighted average number of shares (issue for value)

		Actual	20X1	20X0
Balance 1/1/X0		1 000 000	1 000 000	1 000 000
Cash issue 31/3/X1	(500 000 x 9/12)	500 000	375 000	-
		1 500 000	1 375 000	1 000 000

Solution 8.4

MILES LIMITED
EXTRACTS FROM THE STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 20X1

		Notes	20X1 C	20X0 C
Profit before tax			503 000	403 000
Income tax expense			(200 000)	(180 000)
Profit for the period			303 000	223 000
Other comprehensive income			-	-
Total comprehensive income			303 000	223 000
Basic earnings per ordinary share	*20X1: 300 000* / 1 500 000* *20X0: 220 000** / 1 500 000* **(303 000 - 3000)* ***(223 000 - 3000)*	5	0,200	0,147

MILES LIMITED
EXTRACTS FROM THE STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 20X1

	Ordinary shares C	Preference shares C	Share premium C	Retained earnings C	Total C
Opening balance at 1/1/20X0	200 000	30 000	290 000	60 000	580 000
Total comprehensive income				223 000	223 000
Ordinary dividends				(30 000)	(30 000)
Preference dividends				(3 000)	(3 000)
Opening balance at 1/1/20X1	200 000	30 000	290 000	250 000	770 000
Capitalisation issue	100 000		(100 000)		0
Total comprehensive income				303 000	303 000
Ordinary dividends				(30 000)	(30 000)
Preference dividends				(3 000)	(3 000)
Closing balance at 31/12/20X1	300 000	30 000	190 000	520 000	1 040 000
20X0 Dividends per ordinary share	*30 000 / 1 000 000*				0.030
20X1 Dividends per ordinary share	*30 000 / 1 500 000*				0.020

Solution 8.4 continued …

MILES LIMITED
EXTRACTS FROM THE NOTES TO THE FINANCIAL STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 20X1

5. Earnings per share

Basic earnings per share

The calculation of earnings per share is based on earnings of C300 000 (20X0: C220 000) and 1 500 000 ordinary shares (20X0: 1 500 000) after adjusting for the capitalisation issue during 20X1.

Reconciliation of profit to earnings

	20X1 C Net	20X0 C Net
Profit/(loss) for the period	303 000	223 000
Preference dividends	(3 000)	(3 000)
Basic earnings	300 000	220 000

Workings

Number of shares (issue for no value)

	Actual	20X1	20X0
Balance 1/1/X0	1 000 000	1 000 000	1 000 000
Capitalisation issue 1/7/X1 *(1 000 000 / 2 x 1)*	500 000	500 000	500 000
	1 500 000	1 500 000	1 500 000

20X1: 500 000 x 1000 000 (20X1 balance) / 1 000 000 (actual)
20X0: 500 000 x 1 000 000 (20X0 balance) / 1 000 000 (actual)

Solution 8.5

LOYAL LIMITED
EXTRACTS FROM THE STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 20X1

		Notes	20X1 C	20X0 C
Profit for the year			250 000	280 000
Other comprehensive income			0	0
Total comprehensive income			250 000	280 000
Basic earnings per ordinary share	*20X1: 247 000 / 200 000*			
	20X0: 277 000 / 200 000	5	1.235	1.385

LOYAL LIMITED
EXTRACTS FROM THE STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 20X1

	Ordinary shares C	Preference shares C	Retained earnings C	Total C
Opening balance at 1/1/20X0	100 000	20 000	120 000	240 000
Total comprehensive income			280 000	280 000
Ordinary dividends			(12 000)	(12 000)
Preference dividends			(3 000)	(3 000)
Opening balance at 1/1/20X1	100 000	20 000	385 000	505 000
Total comprehensive income			250 000	250 000
Ordinary dividends			(10 000)	(10 000)
Preference dividends			(3 000)	(3 000)
Closing balance at 31/12/20X1	100 000	20 000	622 000	742 000
20X0 Dividends per ordinary share	*20X0: 12 000 / 100 000*			0,120
20X1 Dividends per ordinary share	*20X1: 10 000 / 200 000*			0,050

LOYAL LIMITED
EXTRACTS FROM THE NOTES TO THE FINANCIAL STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 20X1

5. Earnings per share

Basic earnings per share

The calculation of earnings per share is based on earnings of C247 000 (20X0: C277 000) and 200 000 ordinary shares (20X0: 200 000) after adjusting for the share split during 20X1.

Reconciliation of earnings	20X1 C	20X0 C
Profit for the year	250 000	280 000
Preference dividends	(3 000)	(3 000)
Basic earnings	247 000	277 000

Solution 8.5 continued …

Workings

Number of shares (issue for no value)		**Actual**	**20X1**	**20X0**
Balance 1/1/X0 and 1/1/X1		100 000	100 000	100 000
Share split 1/7/X1		100 000	100 000	100 000
Balance 31/12/X1	*(100 000 / 1 x 2)*	200 000	200 000	200 000

Solution 8.6

ROGER LIMITED
EXTRACTS FROM THE STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 20X8

		Notes	20X8	20X7
			C	C
Profit before tax			750 000	730 000
Income tax expense			(400 000)	(300 000)
Profit for the year			350 000	430 000
Other comprehensive income			0	0
Total comprehensive income			350 000	430 000
Basic earnings per ordinary share	*20X8: 318 000 / 829 897*			
	20X7: 398 000 / 773 196	5	0.3832	0.5147

ROGER LIMITED
EXTRACTS FROM THE STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 20X8

	Ordinary shares	Preference shares	Share premium	Retained earnings	Total
	C	C	C	C	C
Opening balance at 1/1/20X7	375 000	400 000	0	200 000	975 000
Total comprehensive income				430 000	430 000
Ordinary dividends				(30 000)	(30 000)
Preference dividends				(32 000)	(32 000)
Opening balance at 1/1/20X8 *(W3)*	375 000	400 000	0	568 000	1 343 000
Rights issue	125 000		425 000		550 000
(375K/ 3 x 1) or (500K – 375K)					
[250K x (2.20-0.50)] = 450K					
Total comprehensive income				350 000	350 000
Ordinary dividends				(40 000)	(40 000)
Preference dividends				(32 000)	(32 000)
Closing balance at 31/12/20X8	500 000	400 000	425 000	846 000	2 171 000
20X7 Dividends per ordinary share	*30 000 / 750 000*				0.04
20X8 Dividends per ordinary share	*40 000 / 1 000 000*				0.04

Solution 8.6 continued …

ROGER LIMITED
EXTRACTS FROM THE NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 20X8

5. Earnings per share

Basic earnings per share
The calculation of earnings per share is based on earnings of C318 000 (20X7: C398 000) and a weighted average of 829 897 ordinary shares (20X7: 773 196) after adjusting for the rights issue on 30th September 20X8.

Reconciliation of profit to earnings	**20X8**	**20X7**
	C	**C**
	Net	**Net**
Profit/(loss) for the period	350 000	430 000
Preference dividends	(32 000)	(32 000)
Basic earnings	318 000	398 000

Solution 8.6 continued …

Workings

W1: Weighted average/ Adjusted number of shares

	20X8	20X7
Ordinary shares	**weighted**	**adjusted**
Balance (1/1/20X8): W3	750 000	750 000
Rights issue: 20X7: 750 000 x 1.030927		773 196
20X8: 750000 x 9/12 x 1.030927	579 897	
20X8:1 000 000 x 3/12	250 000	
	829 897	0

Calculating the ex right factor share value:

$$\frac{\text{FV of shares in issue + Amount received after rights issue}}{\text{Total amount after rights issue}}$$

$$\frac{(750\,000 \times 2.50) + (250\,000 \times 2.20)}{1\,000\,000}$$

$$\frac{1\,875\,000 + 550\,000}{1\,000\,000} = \frac{2\,425\,000}{1\,000\,000}$$

$$= 2.4250$$

Adjustment factor:

$$\frac{\text{Fair value}}{\text{Ex right value}} = \frac{2.50}{2.4250}$$

$$= 1.0309278$$

W2. Number of Shares (rights issue) - an alternative calculation

	Actual	Weighted average	Adjusted
	20X8	**20X8**	**20X7**
Balance: 1/1/20X8 *(see working 3)*	750 000	750 000	750 000
Issue for value (i.e. effectively sold at market value) *(750K/ 3 x 1 x C2.2/ C2.5); (x 3/12)*	220 000	55 000	0
	970 000	805 000	750 000
Issue for no value (i.e. effectively given away for free) *(see working 4) or (250K – 220K); (30/ 970 x 805K); (30/ 970 x 750K)*	30 000	24 897	23 196
Balance: 31/12/20X8 (C500 000 / 0.5)	1 000 000	829 897	773 196

Solution 8.6 continued …

W3 Number of shares at beginning of the year

the number of shares at year-end = C500 000 / C0.50 = 1 000 000 shares

let X = the number of shares in issue at the beginning of the year

then :

X + X/ 3 x 1 = 1 000 000 shares

1.3333X = 1 000 000

X = 1 000 000/1.3333 = 750 000 shares (at C0.50 per share = C375 000)

check:

750 000 / 3 x 1 = 250 000 (issued through rights issue)

opening balance + rights issue = balance at year-end

750 000 + 250 000 = 1 000 000 (at C0.50 per share = C500 000)

W4 Percentage increase in number of shares due to 'free' shares

using 'actual' figures: 30/970 x 100 = 3.09278%

apply to 20X8: 805 000 x 3.09278% = 24 897

apply to 20X7: 750 000 x 3.09278% = 23 196

Solution 8.7

a)

ANNE LIMITED
EXTRACTS FROM THE STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 20X3

		Note	20X3 C	20X2 C
Profit for the year			700 000	900 000
Other comprehensive income			0	0
Total comprehensive income			700 000	900 000
Basic earnings per share	(20X3: 500 000 / 63 462)	25	7.88	17.98
	(20X2: 700 000 / 38 943)			

If you wanted to show 2 years of comparatives in 20X3, then the 20X1 earnings per share would be calculated using 25 962 as the weighted average number of shares.

ANNE LIMITED
EXTRACTS FROM THE NOTES TO THE FINANCIAL STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 20X3

25. Earnings per share

Basic earnings per share is calculated based on earnings of C500 000 (20X2: C700 000) and a weighted average number of shares of 63 462 (20X2: 38 943).

Reconciliation of earnings:

Reconciliation of profit to earnings

	20X3 C Net	20X2 C Net
Profit/(loss) for the period	700 000	900 000
Preference dividends	(200 000)	(200 000)
Basic earnings	500 000	700 000

Solution 8.7 continued ….

b)

ANNE LIMITED
EXTRACTS FROM THE STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 20X2

		Note	20X2 C	20X1 C
Profit for the year			900 000	800 000
Other comprehensive income			0	0
Total comprehensive income			900 000	800 000
Basic earnings per share	(20X2: 700 000 / 22 500)	25	31.11	40.00
	(20X1: 600 000 / 15 000)			

ANNE LIMITED
EXTRACTS FROM THE NOTES TO THE FINANCIAL STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 20X2

25. Earnings per share

Basic earnings per share is calculated based on earnings of C700 000 (20X1: C600 000) and a weighted average number of shares of 22 500 (20X1: 15 000).

Reconciliation of profit to earnings

	20X2 C Net	20X1 C Net
Profit/(loss) for the period	900 000	800 000
Preference dividends	(200 000)	(200 000)
Basic earnings	700 000	600 000

Solution 8.7 continued ….

c)

ANNE LIMITED
EXTRACTS FROM THE STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 20X1

		Note	20X1 C	20X0 C
Profit for the period			800 000	x
Other comprehensive income			0	x
Total comprehensive income			800 000	x
Basic earnings per share	*(20X1: 600 000 / 15 000)*	25	40.00	x

ANNE LIMITED
EXTRACTS FROM THE NOTES TO THE FINANCIAL STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 20X1

25. Earnings per share

Basic earnings per share is calculated based on earnings of C600 000 (20X0: C…) and 15 000 shares in issue throughout the year (20X0: ...).

Reconciliation of profit to earnings	20X1 C Net	20X0 C Net
Profit/(loss) for the period	800 000	x
Preference dividends	(200 000)	x
Basic earnings	600 000	x

Solution 8.7 continued ….

Calculation of number of shares

		Actual	20X3	20X2	20X1
balance	**20X0**	10 000			10 000
issue: 30/6/X1	*10 000 x 6/12*	10 000			5 000
balance	**20X1**	20 000		20 000	***15 000***
issue: 30/9/X2	*10 000 x 3/12*	10 000		2 500	0
balance	**20X2**	30 000	30 000	***22 500***	***15 000***
rights issue:30/6/X3	*30 000 / 3 x 2 = 20 000*				
- for value	*20 000 x 10 / 15 x 6/12*	13 333	6 667	0	0
		43 333	36 667	22 500	15 000
- for no value	*20 000 – 13 333*	6 667	5 641	3 462	2 308
	(6 667/ 43 333) x 36 667; x 22 500; x 15 000				
		50 000	42 308	25 962	17 308
split	*50 000 / 2 x 3 – 50 000*	25 000	21 154	12 981	8 654
	(25 000 / 50 000) x 42 308; x 25 962; x 17 308				
balance	**20X3** *50 000 / 2 x 3*	75 000	***63 462***	***38 943***	***25 962***

Solution 8.8

a) Earnings per share in 20X4 financial statements

Calculation of number of shares	Date	Actual	20X4	20X3	20X2
Opening balance	20X2	0			0
Issue	1/1/20X2	100 000			100 000
Opening balance	20X3	100 000		100 000	100 000
Issue	30/6/20X3	170 000		85 000	0
170 000 x 6/12					
Opening balance	20X4	270 000	270 000	185 000	100 000
Rights issue: for value	30/5/20X4	6 667	3 889	0	0
10 000 x 6 / 9; x 7/12		276 667	273 889	185 000	100 000
Rights issue: for no value					
10 000 - 6 667					
3 333 / 276 667 x 273 889; x 185 000; x 100 000		3 333	3 300	2 229	1 205
		280 000	277 189	187 229	101 205
Capitalisation issue: for no value					
280 000 / 5 x 2					
112 000 / 280 000 x 277 189; x 187 229; x 101 205	30/11/20X4	112 000	110 875	74 891	40 482
Closing balance		392 000	388 064	262 120	141 687

THOMAS LTD
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 20X4

		20X4	20X3	20X2
		C	C	C
Profit for the year		180 000	150 000	100 000
Other comprehensive income		0	0	0
Total comprehensive income		180 000	150 000	100 000
Basic earnings per share	8	0.438	0.534	0.635

20X4: 170 000 / 388 064; 20X3: 140 000 / 262 120; 20X2: 90 000 / 141 687

Solution 8.8 continued …

a) continued …

THOMAS LTD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 20X4

8. Earnings per share

Basic earnings per share

Basic earnings per share is calculated based on earnings of C170 000 (20X3: C140 000 and 20X2: C90 000) and a weighted average number of shares after taking into account the share issues of 388 064 (20X3: 262 120 and 20X2: 141 687).

Headline of profits to earnings per share

	20X4		20X3	20X2
	C	C	C	C
	Net	Gross	Net	Net
Profit for the period	180 000		150 000	100 000
Preference dividends	(10 000)		(10 000)	(10 000)
Basic earnings	170 000		140 000	90 000

Solution 8.8 continued …

b) Earnings per share in 20X3 financial statements

	20X3 C	20X2 C
Basic earnings	140 000	90 000
Number of shares	185 000	100 000
	0.757	0.900

c) Journal entries

Journals	Debit	Credit
Bank (10 000 x 6)	60 000	
Ordinary shares (10 000 x 1)		10 000
Share premium (balancing)		50 000
Ordinary shares issued at C6 (market price of C9)		
Share premium	15 000	
Bank		15 000
Share issue expenses written off		
Share premium (30K + 50K – 15K)	65 000	
Retained earnings (bal)	47 000	
Ordinary share capital (112 000 x C1)		112 000
Capitalisation issue of ordinary shares using the rest of the share premium balance: *112 000 (per table) x C1; or* *(100K + 170K + 10K) / 5 x 2 x C1*		
Preference dividends	10 000	
Preference shareholders/ Bank		10 000
Preference dividends paid: per note or 50K x C2 x 10%		

Solution 8.9

MATTHEW LIMITED
EXTRACTS FROM THE STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 20X1

	Notes	20X1	20X0
		C	C
Profit for the period		320 000	290 000
Other comprehensive income		0	0
Total comprehensive income		320 000	290 000
Basic earnings per ordinary share	5	0.194	0.181
Basic earnings per participating preference share	5	2.325	2.111

MATTHEW LIMITED
EXTRACTS FROM THE STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 20X1

	Ordinary shares	Participating preference shares	Preference shares	Retained earnings
	C	C	C	C
Opening balance at 1/1/20X0	700 000	20 000	90 000	xxx
Total comprehensive income				290 000
Participating preference dividend (w3)				(4 000)
Preference dividend (C90 000 x 5%)				(4 500)
Ordinary dividends				0
Opening balance at 1/1/20X1	700 000	20 000	90 000	xxx
Total comprehensive income				320 000
Rights issue	175 000			
Participating preference dividend (w3)				(8 000)
Preference dividend (C90 000 x 5%)				(4 500)
Ordinary dividends				(10 000)
Closing balance at 31/12/20X1	875 000	20 000	90 000	xxx
20X0 Dividends per ordinary share				0,000
20X1 Dividends per ordinary share		*10 000 / 1 250 000*		0,008
20X0 Dividends per participating preference share		*4 000 / 40 000*		0,100
20X1 Dividends per participating preference share		*8 000 / 40 000*		0,200

Solution 8.9 continued ….

MATTHEW LIMITED
EXTRACTS FROM THE NOTES TO THE FINANCIAL STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 20X1

5. Earnings per share

Basic earnings per ordinary share
The calculation of earnings per ordinary share is based on earnings of C222 500 (20X0: C201 071) and a weighted average 1 145 833 ordinary shares (20X0: 1 111 111) in issue throughout the year.

Basic earnings per participating preference share
The calculation of earnings per participating preference share is based on earnings of C93 000, including the fixed preference dividend of C4 000 (20X0: C84 429) and 40 000 (20X0: 40 000) participating preference shares in issue during the year.

Reconciliation of profits to earnings	**20X1**	**20X0**
	C	**C**
Profit for the year	320 000	290 000
Less preference dividends *(the fixed portion)*	(8 500)	(8 500)
Basic earnings	311 500	281 500
- ordinary share	222 500	201 071
- participating preference share	89 000	80 429

Solution 8.9 continued ….

Workings

W1: Earnings split		20X1	20X0
Total		311 500	281 500
Ordinary shares	5/7	222 500	201 071
Participating preference shares	2/7	89 000	80 429

Let X = share of earnings belonging to ordinary shareholders

Then:

X + 2/5X = Earnings to be shared

7/5X = Earnings to be shared

X = Earnings to be shared x 5/7

This means that the ordinary shares will get 5/7 of the earnings, leaving 2/7 for the participating preference shares.

W2: Total earnings belonging to participating preference shares

		20X1	20X0
Share of earnings	*W1*	89 000	80 429
Fixed dividend		4 000	4 000
		93 000	84 429

W3: Total dividend belonging to participating preference shares

		20X1	20X0
Fixed dividend		4 000	4 000
Participating dividend	*(10 000 x 2/5)*	4 000	0
		8 000	4 000

W4: Weighted average number of ordinary shares … *overleaf*

Solution 8.9 continued ….

W4: Weighted average number of ordinary s

	Actual 20X1	Weighted 20X1	Adjusted 20X0
Balance: 1/1	1 000 000	0	1 000 000
Rights issue: 1/1 - 30/9	0	833 333	0
Adjust prior year (1000000 x 2)	1 000 000	833 333	1 111 111
Rights issue: 30/9 - 31/12	250 000	312 500	0
	1 250 000	1 145 833	1 111 111

Calculating the ex right factor share value:

$$\frac{\text{FV of shares in issue + Amount receives after rights issue}}{\text{Total amount after rights issue}}$$

$$\frac{(1000\,000 \times 1.40) + (250\,000 \times 0.70)}{1\,250\,000}$$

$$\frac{1\,400\,000 + 175\,000}{1250000} = \frac{1\,575\,000}{1\,250\,000}$$

$$= 1.26$$

Adjustment factor:

$$\frac{\text{Fair value}}{\text{Ex right value}} = \frac{1.40}{1.26} = 1.11$$

W4: Weighted average number of ordinary shares (AN ALTERNATIVE CALCULATION)

	Actual 20X1	Weighted 20X1	Adjusted 20X0
Balance: 1/1	1 000 000	1 000 000	1 000 000
For value: (a) (b) and (c) 20X1: 125 000 x 3/12	125 000	31 250	0
	1 125 000	1 031 250	1 000 000
For no value: (d) 20X1: 125 000 / 1 125 000 x 1 031 250	125 000	114 583	111 111
20X0: 125 000 / 1 125 000 x 1 000 000	1 250 000	1 145 833	1 111 111

a)	shares issued: 1 000 000 / 4 x 1 =	250 000
b)	cash received: 1 000 000 / 4 x 1 x C0.70 =	175 000
c)	shares sold: 175 000 / C1.40 =	125 000
d)	shares given away: 250 000 – 125 000 =	125 000

Solution 8.10

HUBBARD LIMITED
EXTRACTS FROM THE STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 20X6

		Notes	20X6 C	20X5 C
Revenue			500 000	400 000
Cost of inventory expense			(250 000)	(200 000)
Gross profit			250 000	200 000
Other income	(20X6: 7 000 + 3 000)		10 000	3 000
Other expenses			(110 000)	(103 000)
Profit before tax			150 000	100 000
Income tax expense	*(20X6: 40 000* *20X5: 35 000 – (10 000 x 35%)*		(40 000)	(31 500)
Profit for the period			110 000	68 500
Other comprehensive income			0	0
Total comprehensive income			110 000	68 500
Earnings per share		10	0.2160	0.1565

HUBBARD LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 20X6

		Note	Non-distributable reserve C	Retained earnings C
Balance at 30/6/20X4			-	25 000
Total comprehensive income - restated				68 500
Ordinary dividend				(5 000)
Preference dividend				(4 000)
Balance at 30/6/20X5 as restated			-	84 500
- as previously reported				81 000
- correction of error (3 500 – 1 125)		11		3 500
Total comprehensive income				110 000
Ordinary dividend				(10 000)
Preference dividend				(2 000)
Transfer to NDR			7 000	(7 000)
Balance at 30/6/20X6			7 000	175 500
20X5 Dividends per share	*10 000 / 500 000*			0.02
20X6 Dividends per share	*5 000 / 250 000*			0.02

Solution 8.10 continued …

HUBBARD LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 20X6

10. Earnings per share

Basic earnings per share:
The calculation of earnings per share is based on earnings of C106 500 (20X5: C65 625) and on the weighted average of 500 000 shares in issue (20X5: 425 000) after the share split on 1 January 20X6. Comparatives have been restated.

Reconciliation of profit to earnings	**20X6**	**20X5**
	C	**C**
	Net	**Net**
Profit for the period	110 000	68 500
Preference dividends	(2 000)	(2 000)
		250
Basic earnings	108 000	66 500

11. Error

Correction of deduction omitted from 20X5 tax calculation. Comparatives have been appropriately restated.

The effect of the correction is as follows:		**20X5**
		C
Effect on the statement of comprehensive income		
Increase/ (decrease) in expenses		
Tax	*3 500 – 1 125*	(3 500)
(Increase)/ decrease in income / profits		
Profit for the year		(3 500)
Effect on the statement of financial position		
(Increase)/ decrease in liabilities / equity		
Current tax payable		3 500
Retained earnings		(3 500)

Solution 8.10 continued …

Workings

W1: Shares in issue

		Actual	20X6	20X5
01/07/04	Balance	200 000	200 000	200 000
31/03/X5	New issue (3/12)	50 000	50 000	12 500
30/06/05	Balance	250 000	250 000	212 500
01/01/X6	Share split (1 for 1)	250 000	250 000	212 500
30/06/X6	Balance	500 000	500 000	425 000

Solution 8.11

TRINI LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 20X8

	20X8	20X7
	C	C
Profit for the year	3 220 000	2 125 000
Other comprehensive income	-	-
Total comprehensive income	3 220 000	2 125 000
Basic earnings per share	11.50	9.78
Headline earnings per share	12.35	9.87
Dividend per share	0.803	0.4

TRINI LIMITED
EXTRACTS FROM THE NOTES TO THE FINANCIAL STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 20X8

5. Earnings per share

Basic earnings per share

The calculation of basic earnings per share is based on earnings of C 3 220 000 (20X7: C2 125 000) and a weighted average of 279 900 (20X7: 217 391) ordinary shares in issue during the year.

Reconciliation of earnings	**20X8**	**20X7**
	C	**C**
Profit for the year	3 220 000	2 125 000
Basic earnings	3 220 000	2 125 000

Significant changes to the number of shares after the end of the reporting period

30 000 ordinary shares were issued at par value after 31 December 20X8

Solution 8.11 continued …

Workings

Number of shares (issue for no value)

	Actual	20X8	20X7
Balance 1/1/X8	500 000	500 000	500 000
30 April 20X8 for value	125 000	83 333	-
	625 000	583 333	500 000
30 May 20X8 rights issue for value	93 750	54 688	-
	718 750	638 021	500 000
30 May 20X8 rights issue for no value	62 500	55 480	43 478
	781 250	693 501	543 478
31 Oct 20X8 share consolidation (5 to 2)	(468 750)	(416 101)	(326 087)
	312 500	277 400	217 391
30 Nov 20X8 for value issue	30 000	2 500	-
31 Dec 20X8 Basic shares	342 500	279 900	217 391

Earnings Calculation

		20X8		20X7
Basic earnings per share		3 220 000		2 125 000
		279 900		217391
	=	11.50	=	9.78
Dividend per share		275 000		200 000
		342 500		500 000
	=	0.803	=	0.4

Solution 8.12

SPROG LIMITED
EXTRACTS FROM THE STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 20X5

		20X5 C
Profit for the year		20 000 000
Other comprehensive income		0
Total comprehensive income		20 000 000
Earnings per share:		
Basic	*20 000 000 ÷ (10% x 1 000 000 000)*	0.20
Diluted basic	*(W1)*	0.14

Workings

W1: Dilutive earnings per share

$$\frac{\text{Revised earnings}}{\text{Revised shares}} = \frac{20\,000\,000 + 1\,505\,000}{100\,000\,000 + 50\,000\,000}$$

$$= \frac{21\,505\,000}{150\,000\,000}$$

$$= \text{C}0.1434$$

Solution 8.13

LASER LIMITED
EXTRACTS FROM THE STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 20X5

		20X5 C	20X4 C
Profit/ (loss) for the year		125 000	(50 000)
Other comprehensive income		0	0
Total comprehensive income		125 000	(50 000)
Earnings per share:			
Basic earnings	*(W1) ÷ (W2)*	1.116	(0.495)
Diluted basic	*(W1) ÷ (W3)*	1.052	(0.464)

Workings

W1: Basic and headline earnings	20X5	20X4
Profit for the year	125 000	(50 000)
Preference dividends	0	0
Basic Earnings	125 000	(50 000)

W2: Weighted number of shares	Date	Actual	20X5 Weighted/ Actual	20X4 Adjusted
Balance	1/1/20X4	100 000		100 000
Issue for value	30/11/20X4	12 000		1 000
Balance	31/12/20X4	112 000	112 000	101 000
Movement	20X5	0	0	0
Balance	31/12/20X5	112 000	112 000	101 000

W3: Dilutive number of shares				
Options (bonus/ free portion)		25 000 – (25 000 x 2.00) ÷ 2.75 *Or* 25000 x (2,75 – 2.00) ÷ 2.75	=	6 818
Dilutive number of shares	20X4:	(6 818 + 101 000)	=	107 818
	20X5:	(6 818 + 112 000)	=	118 818

Solution 8.14

REBEL LIMITED
EXTRACTS FROM THE STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 20X5

		20X5 C	20X4 C
Basic earnings per share	*(W2) ÷ (W3)*	0.2400	1.2000
Basic diluted earnings per share	*(W4)*	0.2237	1.0927

EXTRACTS FROM THE STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 20X6

		Total C
Balance at 30/6/20X4		
Movement		
Balance at 30/6/20X5		
Movement		
Balance at 30/6/20X6		
20X4 Dividends per share		0.0000
20X5 Dividends per share	*20X5: 0.03 + 0.05 + 0.02*	0.1000

Solution 8.14 continued ...

Workings

W1: Calculation of incorrect basic earnings

		20X5	20X4
Incorrect basic earnings per share	*given*	0,20	1,75
Incorrect number of shares	*given*	100 000 shares	20 000 shares
Incorrect basic earnings	*(0.2 x 100 000) (1.75 x 20 000)*	20 000	35 000

W2: Calculation of correct basic earnings

		20X5	20X4
Incorrect basic earnings	*W1*	20 000	35 000
Preference shares dividends	*given*	(5 000)	(5 000)
Correct basic earnings		15 000	30 000

W3: Calculation of correct number of shares

	Actual	Weighted 20X5	Weighted 20X4
1 January	20 000	20 000	20 000
30 June 20X5 Rights issue "for value" portion *(6 months / 12 months)*	60 000	30 000	0
Sub-total	80 000	50 000	20 000
"Not for value" portion *(20 000 x 50 000 / 80 000)* *(20 000 x 20 000 / 80 000)*	20 000	12 500	5 000
31 December	100 000	62 500	25 000

W4: Basic dilutive earnings per share

		20X5	20X4
Diluted basic earnings (finance costs saved)	*(15 000 + 100)* *(30 000 + 100 x 6/12)*	C15 100	C30 050
Dilutive number of shares (additional shares)	*(62 500 + 5 000)* *(25 000 + 5 000 x 6/12)*	67 500	27 500
Dilutive basic earnings per share	*(15 100 / 67 500)* *(30 050 / 27 500)*	C0.2237	C1.0927

Solution 8.15

DABCHICK LIMITED
EXTRACTS FROM THE STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 20X5

	20X5: Calculations	*20X4: Calculations*	Note	**20X5 C**	**20X4 C**
Profit for the year				200 000	135 000
Other comprehensive income				0	0
Total comprehensive income				200 000	135 000
Earnings per share					
Basic	*200 000 / 329 166*	*135 000 / 268 966*	15	0.6076	0.5019
Diluted basic	*201 000 / 391 666*	*136 000 / 331 466*	15	0.5132	0.4103

Solution 8.15 continued …

DABCHICK LIMITED
EXTRACTS FROM THE NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 20X5

15. Earnings per share

The calculation of the following earning per share are based on the following amounts

	20X5	
	Earnings	Weighted Average number of shares
Basic	200 000	329 166
Diluted basic	201 000	391 666

	20X4	
	Earnings	Weighted Average number of shares
Basic	135 000	268 966
Diluted basic	136 000	331 466

Reconciliation of profit for the year to earnings

	20X5		20X4	
	Gross C	**Net C**	**Gross C**	**Net C**
Profit for the year (after tax)		200 000		135 000
Less preference dividends		0		0
Basic earnings		200 000		135 000

Reconciliation of basic earnings to diluted basic earnings

	20X5 C	20X4 C
Basic earnings	200 000	135 000
Options	0	0
Preference shares	1 000	1 000
Diluted basic earnings	201 000	136 000

Reconciliation of basic number of shares to diluted number of shares

	20X5	20X4
Basic number of shares	329 166	268 966
Options	12 500	12 500
Preference shares	50 000	50 000
Diluted number of shares	391 666	331 466

Solution 8.15 continued …

Workings

W1: Weighted number of shares		Actual	Weighted 20X5	Adjusted 20X4
1 January 20X4		250 000		250 000
30 Sept 20X4 Rights issue	*250 000 / 5 x 1 share = 50 000*			
• for value portion	*50 000 x C6 / C7.50 = 40 000* *40 000 x 3/12*	40 000		10 000
Subtotal:		290 000		260 000
• not for value portion	*50 000 – 40 000 = 10 000* *10 000 / 290 000 x 260 000*	10 000		8 966
1 January 20X5		300 000	300 000	268 966
31 May 20X5 for value	*50 000 x 7/12*	50 000	29 166	0
31 Dec		350 000	329 166	268 966

W2: Ranking of dilutive instruments				Ranking:
Options	*No change to earnings*	+ 0	0.0000	1
	(25 000 x 4) - (25 000 x 4 x C7)/ C8 = 12 500	+ 12 500		
	Or (25 000 x 4 x (C8 – C7)/ C8 = 12 500			
Preference shares	*Dividends: 1 000*	+ 1 000	0.02	2
		+ 50 000		

W3: 20X5 Test whether anti-dilutive					
Basic earnings per share			200 000 / 329 166	= 0.6076	
Options	200 000 + 0 / 329 166 + 12 500	=	200 000 / 341 666	= 0.5854	Dilutive
Preference shares	200 000 + 1 000 / 341 666 + 50 000	=	201 000 / 391 666	= 0.5132	Dilutive

W4: 20X4 Test whether anti-dilutive					
Basic earnings per share			135 000 / 268 966	= 0.5019	
Options	135 000 / 268 966 + 12 500	=	135 000 / 281 466	= 0.4796	Dilutive
Preference shares	135 000 + 1 000 / 281 466 + 50 000	=	136 000 / 331 466	= 0.4103	Dilutive

Solution 8.16

LATE NIGHT LIMITED
EXTRACTS FROM THE STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 20X5

	20X5: Calculations	*20X4: Calculations*	Note	**20X5 C**	**20X4 C**
Profit for the year				500 000	337 500
Other comprehensive income				0	0
Total comprehensive income				500 000	337 500
Earnings per share					
Basic	*500 000 / 329 166*	*337 500 / 268 966*	15	1.5190	1.2581
Continuing operations	*447 500 /329 166*	*337 500/268 966*		1.3595	1.2581
Discontinued operations	*52 500 /329 166*			0.1595	
Diluted basic	*501 000 / 395 833*	*338 500 / 335 633*	15	1.2657	1.0085
Continuing operations	*448 500 / 395 833*	*338 500 / 335 633*		1.1331	1.0085
Discontinued operations	*52 500 / 395 833*			0.1326	

Solution 8.16 continued ...

LATE NIGHT LIMITED
EXTRACTS FROM THE NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 20X5

15. Earnings per share

The calculation of the following earning per share are based on the following amounts

	20X5	
	Earnings	Weighted Average number of shares
Basic	500 000	329 166
Diluted basic	501 000	395 833

	20X4	
	Earnings	Weighted Average number of shares
Basic	337 500	268 966
Diluted basic	338 500	335 633

Reconciliation of profit for the year to basic, headline and diluted headline earnings	**20X5**		**20X4**	
	Gross	**Net**	**Gross**	**Net**
	C	**C**	**C**	**C**
Profit for the year (after tax)		500 000		337 500
Less preference dividends				0
Basic earnings		500 000		337 500

Reconciliation of earnings to diluted basic earnings

	20X5	**20X4**
	Basic	**Basic**
Earnings	500 000	337 500
Options	0	0
Preference shares *(1 000)*	1 000	1 000
Diluted basic earnings	501 000	338 500

Solution 8.16 continued …

LATE NIGHT LIMITED
EXTRACTS FROM THE NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 20X5

15. Earnings per share continued …

Reconciliation of basic number of shares to diluted number of shares

	20X5	20X4
Basic number of shares	329 166	268 966
Options	16 667	16 667
Preference shares	50 000	50 000
Diluted number of shares	395 833	335 633

Workings

W1: Weighted number of shares		Actual	Weighted 20X5	Adjusted 20X4
1 January 20X4		250 000		250 000
30 Sept 20X4 Rights issue	*250 000 / 5 x 1 share = 50 000*			
• for value portion	*50 000 x C6 / C7.50 = 40 000* *40 000 x 3/12*	40 000		10 000
Subtotal:		290 000		260 000
• not for value portion	*50 000 – 40 000 = 10 000* *10 000 / 290 000 x 260 000*	10 000		8 966
1 January 20X5		300 000	300 000	268 966
31 May 20X5 for value	*50 000 x 7/12*	50 000	29 166	0
31 Dec		350 000	329 166	268 966

W2: Ranking of dilutive instruments				Ranking:
Options	*No change to earnings*	+ 0	0,0000	1
	(25 000 x 4) - (25 000 x 4 x C10)/ C12 = 12 500	+ 16 667		
	Or (25 000 x 4 x (C8 – C7)/ C8 = 12 500			
Preference shares	*Dividends: 1 000*	+ 1 000	0.02	2
		+ 50 000		

Solution 8.16 continued …

For your information:
IAS 33 requires the dilutive (or anti-dilutive) effect of potential ordinary shares to be determined with reference to control earnings (i.e. earnings from continuing operations)

Of the total profit for the year, R52 500 (after tax) was earned from a discontinued operation. When testing to determine whether the potential ordinary shares are dilutive, profit for the period excluding profit from discontinued operations is used.

The actual calculation of diluted earnings per share will include profit from discontinued operations. The total diluted earnings per share is then split into diluted earnings per share from continuing operations and diluted earnings per share from discontinued operations (see extracts from the financial statements above).

W3: 20X5 Test whether anti-dilutive					
Basic earnings per share	(500 000-52 500)		447 500 / 329 166	= 1.3595	
Options	447 500 + 0		447 500	= 1.2940	Dilutive
[(12-10)/12]x25 000x4	329 166 + 16 667	=	345 833		
Preference shares	447 500 + 1 000		448 500	= 1.1331	Dilutive
	345 833 + 50 000	=	395 833		

W4: 20X4 Test whether anti-dilutive					
Basic earnings per share			337 500 / 268 966	= 1.2548	
Options	337 500		337 500	= 1.1816	Dilutive
	268 966 + 16 667	=	285 633		
Preference shares	337 500 + 1 000		338 500	= 1.0085	Dilutive
	285 633 + 50 000	=	335 633		

Solution 8.17

EARLY MORNING LIMITED
EXTRACTS FROM THE STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 20X5

	20X5: Calculations	*20X4: Calculations*	Note	**20X5 C**	**20X4 C**
Profit for the year				500 000	337 500
Other comprehensive income				0	0
Total comprehensive Income				500 000	337 500
Earnings per share					
Basic	*500 000 / 329 166*	*337 500 / 268 966*	15	1.5190	1.2548
Continuing operations	*447 500 / 329 166*	*337 500 /268 966*		1.3595	1.2548
Discontinued operations	*52 500 / 329 166*			0.1595	
Diluted basic	*500 000/ 345 833*	*337 500 / 285 633*	15	1.4458	1.1816
Continuing operations	*447 500 / 345 833*	*337 500 / 285 633*		1.2940	1.1816
Discontinued operations	*52 500 / 345 833*			0.1518	

Solution 8.17 continued ...

EARLY MORNING LIMITED
EXTRACTS FROM THE NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 20X5

15. Earnings per share

The calculation of the following earning per share are based on the following amounts

	20X5	
	Earnings	Weighted Average number of shares
Basic	500 000	329 166
Diluted basic	500 000	345 833

	20X4	
	Earnings	Weighted Average number of shares
Basic	337 500	268 966
Diluted basic	337 500	285 633

Reconciliation of profit for the year to basic	**20X5**	**20X4**
	Net	**Net**
	C	**C**
Profit for the year (after tax)	500 000	337 500
Less preference dividends		0
Basic earnings	500 000	337 500

Reconciliation of earnings to diluted basic earnings

	20X5 Basic	**20X4 Basic**
Earnings	500 000	337 500
Options	0	0
Preference shares (not adjusted for as anti-dilutive)		
Diluted basic earnings	500 000	337 500

Solution 8.17 continued …

EARLY MORNING LIMITED
EXTRACTS FROM THE NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 20X5

15. Earnings per share continued …

Reconciliation of basic number of shares to diluted number of shares

	20X5	20X4
Basic number of shares	329 166	268 966
Options	16 667	16 667
Preference shares (not adjusted for because anti-dilutive)		
Diluted number of shares	345 833	285 633

Workings

W1: Weighted number of shares		Actual	Weighted 20X5	Adjusted 20X4
1 January 20X4		250 000		250 000
30 Sept 20X4 Rights issue	*250 000 / 5 x 1 share = 50 000*			
• for value portion	*50 000 x C6 / C7.50 = 40 000* *40 000 x 3/12*	40 000		10 000
Subtotal:		290 000		260 000
• not for value portion	*50 000 – 40 000 = 10 000* *10 000 / 290 000 x 260 000*	10 000		8 966
1 January 20X5		300 000	300 000	268 966
31 May 20X5 for value	*50 000 x 7/12*	50 000	29 166	0
31 Dec		350 000	329 166	268 966

W2: Ranking of dilutive instruments				Ranking:
Options	*No change to earnings*	+ 0	0.000	1
	(25 000 x 4) - (25 000 x 4 x C10)/ C12 = 16 667 *Or (25 000 x 4 x (C12 – C10)/ C12 = 16 667*	+ 16 667		
Preference shares	*Dividends: 1 000*	+ 1 000	1.000	2
		+ 1000		

Solution 8.17 continued …

For your information
IAS 33 requires the dilutive (or anti-dilutive) effect of potential ordinary shares to be determined with reference to control earnings (i.e. earnings from continuing operations)

Of the total profit for the year, R52 500 (after tax) was earned from a discontinued operation. When testing to determine whether the potential ordinary shares are dilutive, profit for the period excluding profit from discontinued operations is used.

The actual calculation of diluted earnings per share will include profit from discontinued operations. The total diluted earnings per share is then split into diluted earnings per share from continuing operations and diluted earnings per share from discontinued operations (see extracts from the financial statements above).

W3: 20X5 Test whether anti-dilutive					
Basic earnings per share	(500 000-52 500)		447 500 / 329 166	= 1.3595	
Options	447 500 + 0 / 329 166 + 16 667	=	447 500 / 345 833	= 1.2940	Dilutive
Preference shares	447 500 + 1 000 / 345 833 + 500	=	448 500 / 346 333	= 1.2950	Anti-Dilutive

W4: 20X4 Test whether anti-dilutive					
Basic earnings per share			337 500 / 268 966	= 1.2548	
Options	337 500 / 268 966 + 16 667	=	337 500 / 285 633	= 1.1816	Dilutive
Preference shares	337 500 + 1 000 / 285 633 + 500	=	338 500 / 286 133	= 1.1830	Anti-Dilutive

Solution 8.18

	20X8 C	20X7 C
Profit after tax	650 000	550 000
Preference dividends (W10)	(24 000)	(24 000)
Earnings to be shared	626 000	526 000
Portion to participating preference shareholders (626000 / 12)	52 167	43 833
Portion to ordinary shareholders (626 000 / 12 x 11)	573 833	482 167
Basic earnings (ordinary shareholders)	573 833	482 167
Adjustments		
Finance costs (not tax allowable)	15 750	15 750
Diluted earnings	589 583	497 917

Options	67 500 x 4 / 9		37 500 shares are not for value
W10: Participating preference shares			24 000 (equity)
Convertible preference shares		=	15 750 (treated as finance costs)= 39 750

Number of shares	**Total**	**20X8**	**20X7**
Balance 1 January 20X8	900 000	900 000	683 750
31 March 20X7 – for value issue		-	50 000
1 May 20X7 – acquisition of Happy Ltd		-	110 000
	900 000	900 000	843 750
30 September 20X8 - Share buy-back	(200 000)	(150 000)	-
Used in basic earnings calculations	700 000	750 000	843 750
Options	37 500	37 500	-
Contingent shares	25 000	25 000	- (not met)
Convertible preference shares	56 250	56 250	56 250
Used in diluted earnings calculations		868 750	900 000

	20X8	**20X7**
Basic earnings per share	573 833 / 750 000 = 0.7651	482 167 / 843 750 = 0.5716
Diluted earnings per share	589 583/ 868 750 = 0.6787	497 917/ 900 000 = 0.5532

KLINGBROS LIMITED
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 20X8

	20X8 C	20X7 C
Basic earnings per share	0.7651	0.5716
Diluted earnings per share	0.6787	0.5532

Solution 8.18 continued …

Diluted earnings per share

Ranking in order of dilution			**Ranking**
Options	0 / 37 500	0.00	1
Convertible preference shares	(15 750 + 1 969) / 56 250	0.315	2
Convertible debentures	11 200 / 11 429	0.98	3
Testing for whether dilutive or not:			
Basic earnings per share	573 833 / 750 000	0.765	
Adjust for:			
Notionally exercised options	(573 833 + 0) / (750 000 + 37 500)	0.72868	Dilutive
Notionally exercised options + convertible preference shares	(573 833 + 0 + 15 750) / (750 000 + 37 500 + 56 250)	0.6987	Dilutive
Options, preference shares and debentures	(589 583 + 11 200) / (843 750 + 11 429)	0.7025	Anti Dilutive

Convertible preference shares: 750 000 x C3 x 7% = 15 750

Solution 8.19

W1: Number of equity shares	Actual	20X8	20X7
Balance 1 Jan 08	350 000	350 000	350 000
31 Mar: *Capitalisation issue*	140 000	140 000	140 000
	490 000	490 000	490 000
30 Sept: *Issue for value*	50 000	12 500	0
	540 000	502 500	490 000
30 Oct Rights issue: for value	21 000	3 500	0
	561 000	506 000	490 000
Rights issue: not for value	9 000	8 118	7861
	570 000	514 118	497 861
30 November for value	10 000	834	0
31 December 20X8	580 000	514 952	497 861
Options – not for value	16 000	16 000	16 000
Convertible debentures	100 000	100 000	0
31 December Diluted shares		630 952	513 861

Earnings – Numerator			
Profit after tax		550 000	400 000
Finance cost on preference share liability	Already deducted	0	0
Basic earnings		550 000	400 000
Diluted earnings			
Basic earnings			
Finance cost		48 000	0
Tax saving due to finance cost lost	48 000x 30%	(14 400)	0
Diluted earnings		583 600	400 000

Diluted EPS			
Ranking in order of dilution			Rank
Options	0 ÷ 16 000	0	1
Convertible debentures	(48 000 – 14 400) ÷ 100 000	0.336	2

Testing whether dilutive or not

Basic earnings ÷ basic no. of shares= 550 000 ÷ 514 952 = C 1.0680

Adjust for

- Notionally exercised options 550 000 ÷ (514 952 + 16 000)= 530 952 = C 1.0359 dilutive
- Notionally exercised options and converted debentures (550 000 + 48 000 – 14 400) ÷ (514 952 + 16 000 + 100 000) = C 0.925 dilutive

Solution 8.19 continued …

LAMBSON, GOLDEN AND MYBURG LIMITED
EXTRACTS FROM THE STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 SEPTEMBER 20X3

		Notes	20X8 C	20X7 C
Basic earnings / (loss) per share	*550 000 ÷ 514 952; 400 000 ÷497 861*		1.068	0.8034
Diluted basic earnings per share	*583 600 ÷ 630 952; 400 000 ÷ 513 861*		0.925	0.778

14. Earnings per share

The calculation of basic earnings per share is based on profit / (loss) of C550 000 (20X7: C400 000) and on the weighted average of 514 952 shares in issue (20X2: 497 861) at the end of the year.

The calculation of diluted basic earnings per share is based on profit / (loss) of C583 600 (20X7: C400 000) and on the weighted average of 630 952 shares in issue (20X2:513 861) at the end of the year.

Reconciliation of profit to earnings

		20X8		20X7	
		C Gross	C Net	C Gross	C Net
Profit/(loss) for the period			550 000		400 000
Preference dividends	*Already deducted from profit*		0		0
Basic earnings			550 000		400 000
Basic earnings			550 000		400 000
Debentures finance cost avoided		48 000	33 600		
Diluted basic earnings			583 600		400 000
Reconciliation of basic number of shares to diluted					
Basic share			514 952		497 861
Notionally exercised options			16 000		16 000
Notionally converted debentures			100 000		0
Diluted number of shares			630 952		513 861